Ocelot Industries Ltd.

Annual Report July 31, 1975

OCELOT INDUSTRIES LTD.

OCELOT INDUSTRIES LTD., is incorporated in the Province of Alberta, with its shares traded on the Toronto, Montreal and Alberta Stock Exchanges.

HEAD AND EXECUTIVE OFFICES

775 IBM Building
606-4th St. S.W.
Calgary, Alberta

DIRECTORS

O. R. Edmonds	Toronto, Ontario
N. M. Hannon, Jr.	Calgary, Alberta
D. S. Harris	Calgary, Alberta
J. V. Lyons	Calgary, Alberta
G. C. Solomon	Regina, Saskatchewan

OFFICERS

J. V. Lyons	President
D. S. Harris	Vice-President, Secretary-Treasurer
R. O. Fisher	Vice-President
A. M. Wasylenko	Comptroller

REGISTRAR AND TRANSFER AGENT

National Trust Company Limited
Calgary, Alberta; Montreal, Quebec;
Toronto, Ontario; Vancouver, B.C.;
Winnipeg, Manitoba; and
through its agent
Canada Permanent Trust Co.
Regina, Saskatchewan

BANKERS

The Royal Bank of Canada
Main Branch
Calgary, Alberta

AUDITORS

Thorne Riddell & Co.
Chartered Accountants
Calgary, Alberta

To the Shareholders

I am pleased to report the continued progress of your Company in the fiscal year ended July 31, 1975. In that fiscal period, we increased our total production of natural gas from 962 million cubic feet to 1.8 billion cubic feet. The production of condensate rose from 9700 barrels to approximately 28,000 barrels.

Production for the year resulted in a gross revenue increase (before royalties) from $244,847.00 to $993,240.00 which is an increase of 306%. However, after all expenses, we were still in a net loss position because of the size of the exploration and development programs conducted during the year, well write-offs and increased interest costs on our long-term debt.

We have acquired additional lands and we now own 174,371 net acres located in Western Canada and the United States. We also drilled 18 wells of which 14 were completed as gas wells and 4 were dry.

I am pleased to tell you that pending completion of our new processing and compression plants by this calendar year end as described more fully under the Edson and Chinook headings later in this report, Ocelot should be producing approximately 50,000 MCF of natural gas per day. Natural gas liquids will be produced with the gas from the Edson area. This will result in another major increase in our production statistics and a corresponding improvement in our revenue and cash flow during the 1975-76 year.

For more information about our plans and area activities, please read carefully the following pages where, under individual headings, we talk about the areas in greater detail.

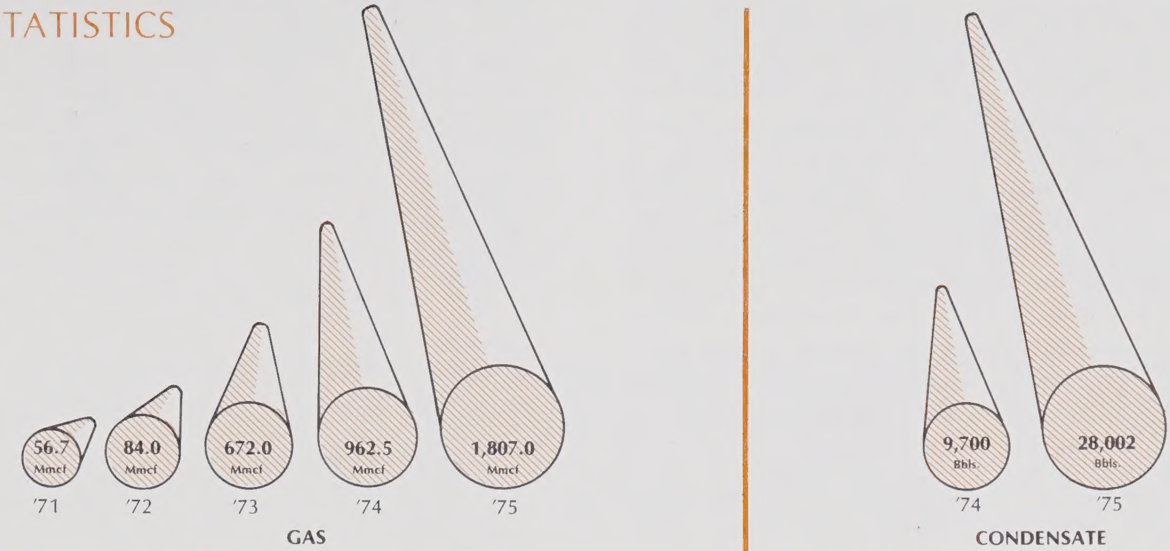
Respectfully submitted on behalf of the Board of Directors.

J V Lyons

Calgary, Alberta
October 17, 1975

J. V. LYONS,
President.

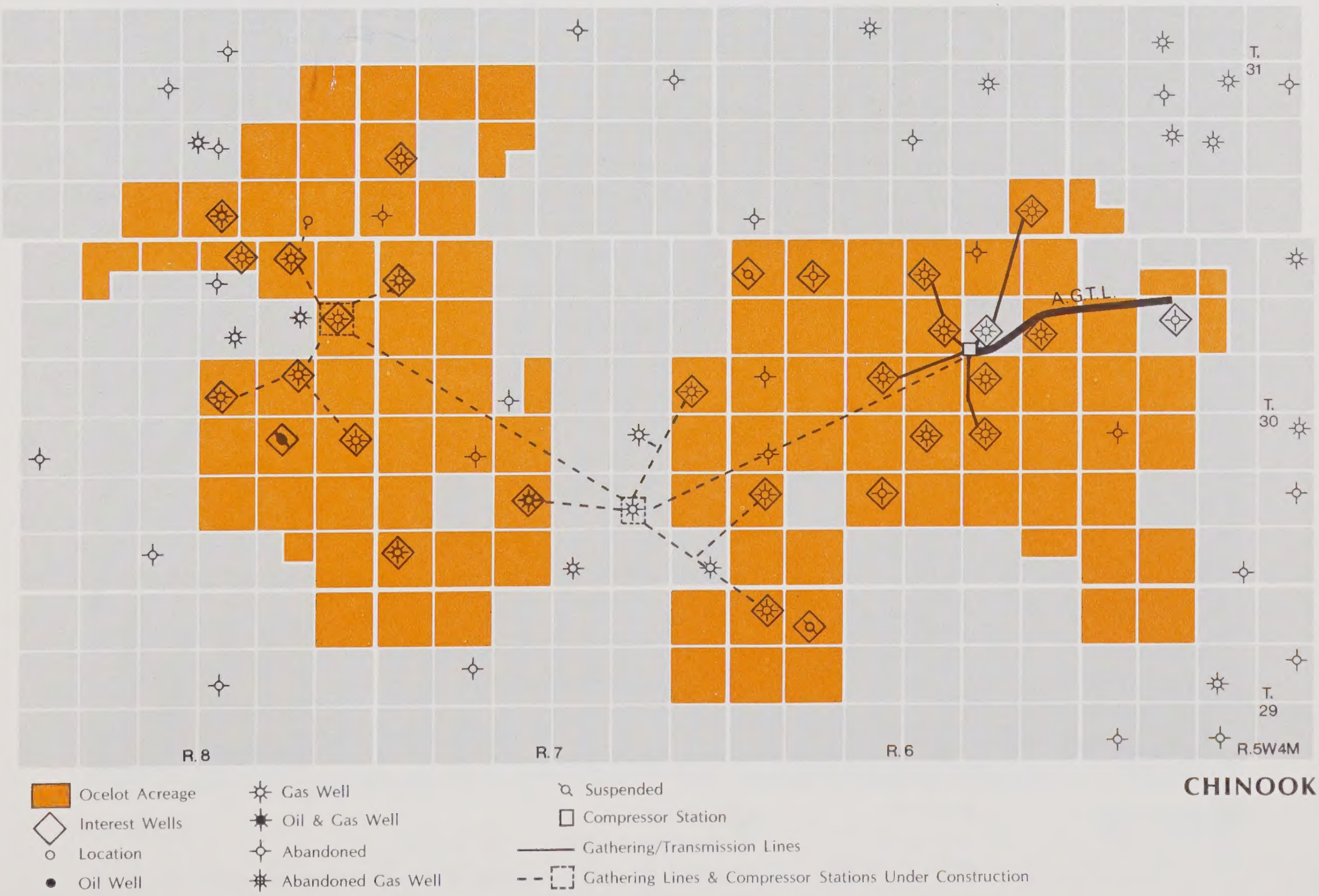
SALES VOLUME STATISTICS



CHINOOK AREA

Ocelot Industries Ltd., together with Sedalia Gas Limited have been actively exploring for new gas reserves in the Chinook area of eastern Alberta for the past four years. To-date, we have drilled a total of 35 wells, 27 of which were successful gas completions on our land spread which exceeds 75,000 acres.

Gas sales commenced in March, 1975, from six wells. One gas compression plant and gas gathering system has operated at capacity since that time. In order to increase our gas sales, we are completing two additional compression plants and related facilities. The sales contract in the particular area calls for 25,000 MCF per day and we anticipate to be at or near this number in the near future.



CHINOOK

EDSON AREA

In the past year, the Company drilled one very good gas well and one dry hole in the area. This brings to nine the number of successful producing or capped gas wells drilled by Ocelot in the area. One of the original wells (6-21) has been on production at satisfactory rates since March, 1974, and the plant capacity at this location is 5,000 MCF per day. New gas processing facilities are under construction near the north end of the properties at well 11-12 and near the south end at well 11-27. The combined capacity of all of these plants will be the heating energy equivalent of 27,000 MCF per day. During the year, we were able to negotiate a substantial increase in the price paid for natural gas in this area.

Sufficient capital is available from our bank and other sources to continue development of this area. Drilling is scheduled to commence shortly.

LAND HOLDINGS SUMMARY

	Acres	
Alberta	Gross	Net
Atlee	7,840	6,960
Boyer	48,000	42,900
Chinook	63,200	29,520
Edson	73,280	42,108
Gilby	1,920	1,920
Little Horse	12,800	6,400
Medicine Hat	5,103	2,952
Scandia	16,499	7,258
Winfield	7,040	7,040
U.S.A.		
Nebraska	14,026	3,387
Wyoming	105,519	23,926
	355,227	174,371

SUMMARY OF WELLS

	Gross	Net
Producing Gas Wells	11.0	7.0
Capped Gas Wells	33.0	21.1
Oil Wells	1.0	1.0

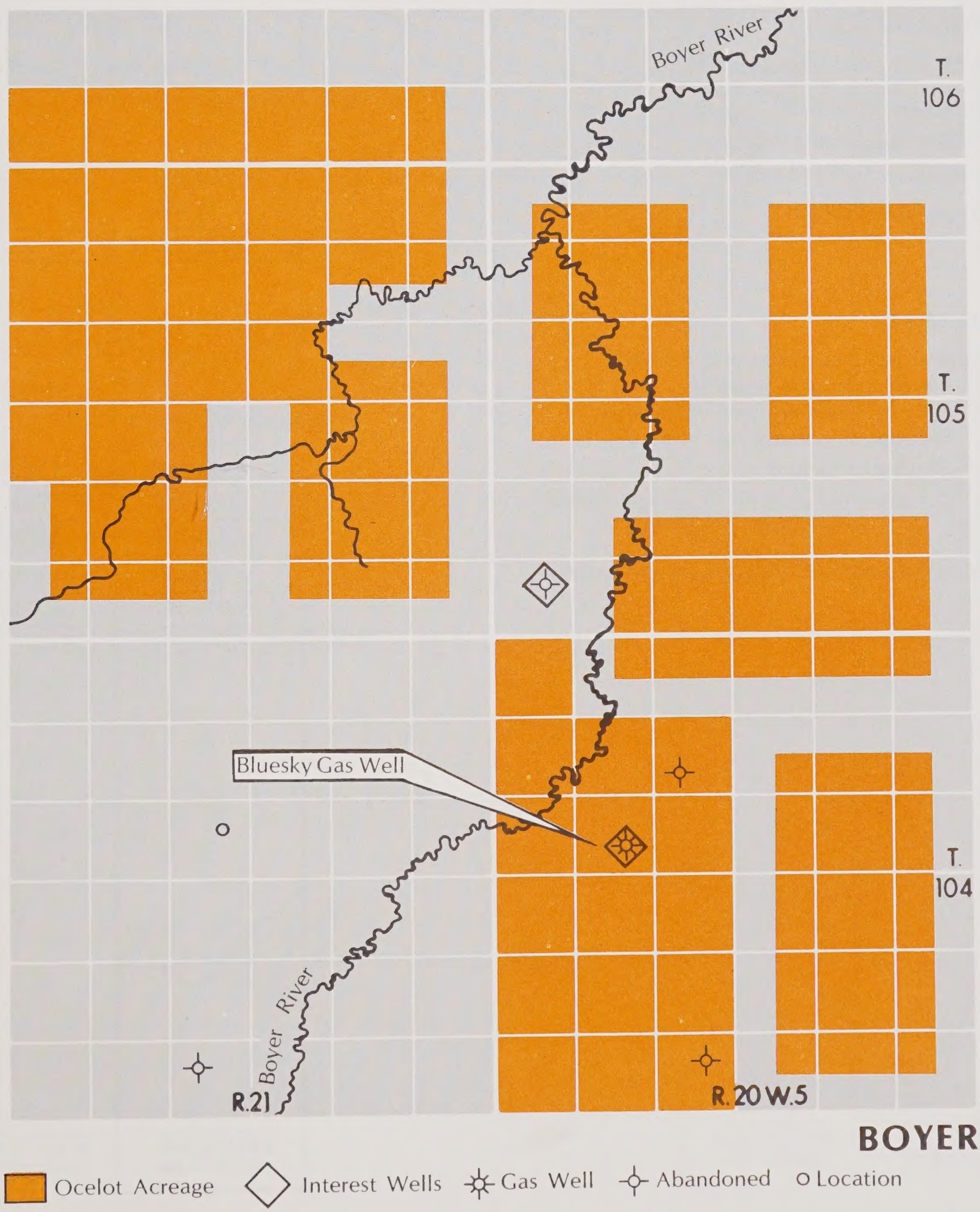
EDSON

BOYER AREA

In the Boyer-Keg River area of Northern Alberta, Ocelot has a major interest (approximately 90 percent) in 48,000 gross acres of land located on the Bluesky gas producing trend currently being developed by a large international company. Prices paid for lands on this trend, within a few miles of Ocelot acreage, have been as high as $50 per acre.

During the winter of 1974-75, your Company successfully completed a Bluesky gas well in Township 104, Range 20, W4M. This well, along with other previously drilled tests, definitely establishes the presence of Bluesky gas reserves within the greater portion of company-held acreage.

At least one and possibly two additional Bluesky evaluation wells are being scheduled for the 1975-76 winter drilling season. These tests will allow Ocelot to make a realistic appraisal of reserves and the ultimate economic worth of this block which is presently considered to have excellent gas potential.



Assets

	1975	1974
CURRENT ASSETS		
Cash and short-term deposits	$ 261,783	$ 13,671
Accounts Receivable - trade		
Affiliated Company	396,433	18,095
Other	369,590	37,352
Refundable deposits	11,500	9,000
	1,039,306	78,118
FIXED ASSETS		
Natural gas, petroleum and mineral leases and rights together with development and equipment thereon, at cost (Notes 1 and 2)		
Producing properties	4,524,708	1,942,135
Accumulated depletion and depreciation	99,915	45,365
	4,424,793	1,896,770
Capped wells and undeveloped properties	4,590,400	4,478,985
	9,015,193	6,375,755
	$10,054,499	$ 6,453,873

Consolidated Balance Sheet ~ July 31, 1975

Liabilities

	1975	1974
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,322,677	$ 598,062
Current maturities on long-term debt	730,622	703,950
	2,053,299	1,302,012
LONG-TERM DEBT (Note 2)	5,857,991	2,396,963

Shareholders' Equity

	1975	1974
CAPITAL STOCK (Note 3)		
Authorized		
7,500,000 shares of no par value		
Issued		
4,193,330 shares	4,133,057	4,133,057
DEFICIT	(1,989,848)	(1,378,159)
	2,143,209	2,754,898
	$10,054,499	$ 6,453,873

Approved by the Board:

J V Lyons, Director

W Harris, Director

Consolidated Statement of Earnings and Deficit

YEAR ENDED JULY 31, 1975

	1975	1974
REVENUE		
Oil and gas sales	$ 731,102	$ 181,966
Interest and other	58,544	88,482
	789,646	270,448
EXPENSES		
Production	168,352	100,388
Carrying charges on non-producing properties	168,369	50,038
Exploration	146,057	44,552
Dry hole costs	353,007	8,263
General and administrative	70,120	121,380
Interest on long-term debt	529,248	251,128
Depletion and depreciation (Note 1)	54,549	22,348
	1,489,702	598,097
Loss before extraordinary item	700,056	327,649
Gain on sale of equipment	88,367	—
LOSS FOR THE YEAR	611,689	327,649
Deficit at beginning of year	1,378,159	1,050,510
DEFICIT AT END OF YEAR	$1,989,848	$1,378,159
PER SHARE: Loss before extraordinary item	$ 0.17	$ 0.08
Loss for the year	$ 0.15	$ 0.08

Consolidated Statement of Changes in Financial Position

YEAR ENDED JULY 31, 1975

	1975	1974
SOURCE OF FUNDS		
Proceeds on sale of equipment	$ 621,297	$ —
Long-term debt	4,252,628	1,675,746
	4,873,925	1,675,746
APPLICATION OF FUNDS		
In operations		
Loss before extraordinary item	700,056	327,649
Charges not involving funds	102,974	22,348
	597,082	305,301
Fixed assets	3,275,342	3,049,485
Long-term debt	791,600	1,142,020
	4,664,024	4,496,806
INCREASE (DECREASE) IN WORKING CAPITAL	209,901	(2,821,060)
Working Capital (deficiency) at beginning of year	(1,223,894)	1,597,166
WORKING CAPITAL DEFICIENCY AT END OF YEAR	$ 1,013,993	$ 1,223,894

OCELOT INDUSTRIES LTD.

Notes to Consolidated Financial Statements

YEAR ENDED JULY 31, 1975

1. ACCOUNTING POLICIES

a] Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 93% owned subsidiary which was incorporated on February 26, 1975.

b] Oil and Gas Operations

The companies follow the accounting policies of charging exploration expenses and carrying charges of producing and non-producing properties to earnings as incurred. Lease and other property acquisition costs are capitalized and are charged to earnings if the property is subsequently abandoned. The costs of drilling productive wells are capitalized and the costs of unproductive wells are charged to earnings when determined to be dry. The costs of producing properties and producing wells are depleted using the unit of production method based upon estimated proven recoverable reserves as determined by independent valuation.

Depreciation is provided in the accounts at rates and on methods designed to amortize the costs of depreciable properties over their useful lives.

c] Mining Operations

Costs related to the exploration and development of mineral properties are capitalized on a project-by-project basis and will be depleted on the basis of mineral reserves as and when discovered or written-off to earnings if the project is determined to be unsuccessful.

d] Foreign Currencies

The accounts of the United States subsidiary are translated to Canadian dollars on the following bases:

i) Current assets and liabilities, at the rate of exchange in effect at the balance sheet date;

ii) Fixed assets and liabilities at the rate of exchange in effect at the date of the transaction;

iii) Revenue and expenses (excluding depletion and depreciation, which are translated at the rate of exchange applicable to the related asset), at the average rates of exchange for the period.

The loss on translation has been charged to earnings.

2. LONG-TERM DEBT

	1975	1974
Bank indebtedness (a)	$2,857,100	$2,428,700
Affiliated company (b)	506,885	672,213
Advance for development including accrued interest of $180,185 (c)	3,180,185	—
Other, non-interest bearing and payable July 1, 1977 ($43,065 U.S.)	44,443	—
	6,588,613	3,100,913
Current maturities	730,622	703,950
	$5,857,991	$2,396,963

a) The bank indebtedness is evidenced by a demand promissory note repayable at approximately $624,000 per annum, bears interest at 1% above bank prime rate, and is secured by the Company's interest in certain petroleum and natural gas properties and the assignment of production proceeds therefrom.

b) The amount due to the affiliated company is evidenced by a promissory note dated November 30, 1972, includes accrued interest of $6,622 in 1975, bears interest at 7%, is repayable in annual instalments of $100,000 and matures in 1980.

c) During the year arrangements were made for the financing of the development of certain of the Company's natural gas and petroleum properties. Under the terms of an agreement dated December 17, 1974, an outside corporation has agreed to advance up to $45,000,000 in varying amounts, subject to the proving of additional reserves, to 1989. The advances bear interest at 1% above a bank prime rate and are secured by and repayable from a royalty interest in production from the specified properties. As at July 31, 1975, $3,000,000 had been received under this arrangement.

The estimated amount of long-term debt maturities for the five years subsequent to 1975 are as follows: 1976 - $730,622, 1977 - $768,000, 1978 - $724,000, 1979 - $724,000 and 1980 - $461,000.

3. CAPITAL STOCK

As of July 31, 1975, employees held options to purchase 35,000 shares in the capital stock of the Company. These options are exercisable at $5.00 and $3.83 per share and expire in 1976 and 1977 respectively.

4. INCOME TAXES

As at July 31, 1975, the Company had loss carry-forwards, exploration and development costs and capital cost allowances available for deduction against future taxable income as follows (all subject to final determination by taxation authorities):

Loss carry-forwards (expire in varying amounts beginning in 1977)	$ 30,000
Exploration and development costs	6,285,000
Undepreciated capital costs	1,000,000

5. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the year the company paid $160,827 in remuneration to its directors and senior officers. No directors' fees were paid.

Auditors' Report

To the Shareholders of
Ocelot Industries Ltd.

We have examined the consolidated balance sheet of Ocelot Industries Ltd. and subsidiary company as at July 31, 1975 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at July 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
September 17, 1975

THORNE RIDDELL & CO.
Chartered Accountants.

LITHOGRAPHED IN CANADA

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended January 31, 1975

(Unaudited)

	1975	1974
SOURCE OF FUNDS		
Long-term debt	$3,757,877	$ 632,364
Proceeds on sale of equipment	621,297	—
	$4,379,174	$ 632,364
APPLICATION OF FUNDS		
In operations	$ 246,183	$ 111,809
Fixed assets	1,898,003	1,311,432
Long-term debt	448,600	483,900
	$2,592,786	$1,907,141
INCREASE (DECREASE) IN WORKING CAPITAL	$1,786,388	($1,274,777)
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF PERIOD	($1,223,894)	$1,597,166
WORKING CAPITAL (DEFICIENCY) AT END OF PERIOD	$ 562,494	$ 322,389

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Interim Report To Shareholders

OCELOT INDUSTRIES LTD.

For Six Months Ended January 31, 1975

REPORT TO SHAREHOLDERS:

On February 18, 1975, your Company issued a news release and because of its importance, this release was given to the Canadian Press News Service for cross-country coverage so that it would be brought to the attention of our shareholders and the public at large. In the release, we announced that we had signed an agreement with a major purchaser to sell substantial quantities of our Edson (Peco) developed and undeveloped natural gas liquids and as part of this agreement, that Company has the right of first refusal to buy the uncommitted natural gas from the same field.

Prepayments are to be made to Ocelot in order that we might accelerate the development of our acreage in the Edson (Peco) area. We have received the first of these prepayments in the amount of $3,000,000. The second prepayment of $7,000,000 will be paid to your Company as we incur further development costs. The balance of the funds to a maximum of $45,000,000 will be paid to us as additional reserves of natural gas liquids and natural gas are established.

We have allocated a portion of the $3,000,000 prepayment to have studies conducted by independent consultants to more definitively establish that portion of our Edson acreage in which to concentrate further drilling and also to conduct studies relating to construction of a gathering system and plant.

All prepayments are to be amortized out of a share in production which takes the form of a variable gross royalty, dependent on the volume of production from certain committed lands in the Peco area.

While the various monies mentioned above will be used in the Edson (Peco) area, we still have available to us from our bankers, a remaining line of credit in the amount of approximately $1,500,000, which we can and will use in our other areas to further increase our production potential.

In our November 18th letter to shareholders, we mentioned that we would be doing further testing of our Edson (Peco) 11-12 well. We are pleased to report that during the testing, the well's calculated absolute open gas flow potential was 93,000,000 cu. ft. per day. In addition, during the test, natural gas liquids were also recovered at a rate in excess of 15 barrels per million cu. ft. of gas. It should be noted that this discovery well was drilled under the provincial government drilling incentive program and as a result, any gas produced in its initial 2-year production period, will be exempt from provincial royalties. A one-mile west stepout to the 11-12 well was recently spudded and is currently drilling towards the planned objective.

Last November, we also indicated that our Chinook area of east central Alberta could be on stream at the rate of 10 million cu. ft. of gas around the end of the 1974 year. Due to a shortage of line pipe for the gathering system, delays have been encountered. Now that the pipe is available, our new target date for the initial gas delivery is April 1, 1975. Ocelot's gross interest in this initial production will be 50%. Our gas contract in the Chinook area is for the eventual delivery of 25 million cu. ft. per day and during the remainder of the year, further development work will be undertaken to reach this objective.

At this time, we wish to reiterate to our shareholders, that your Company also enjoys the advantage of paying lower provincial royalties because the majority of our gas reserves are classed as "new" natural gas reserves under the Alberta Government Industry incentive program. This will include our Edson and Chinook natural gas production.

Your Company's unaudited Statement of Earnings and Deficit, including a Statement of Changes in Financial Position for the Six Months ended January 31, 1975, is included in this report to shareholders. We are pleased with the improvement in oil and gas sales over the comparative 1974 period. Sales volumes of natural gas in the period have increased from 400 million cu. ft. to 800 million cu. ft. and condensates from zero to 15,000 barrels. The six month's average gas sale price was 23¢ per Mcf versus 18¢ in the prior year. In January, 1975, price increases brought this monthly average up to 52¢ per Mcf. It is evident, therefore, that the remaining six months of our fiscal period will show a substantial increase in dollar volume.

Since our public financing in April, 1973, we have reported to shareholders our successful wells in Edson (Peco) and other areas. While still a relatively young corporation, Ocelot has been able to increase its reserves of natural gas and natural gas liquids substantially since the financing. When looking ahead, management has at all times realized that large amounts of capital must be obtainable for the development of such reserves. The prepayment arrangement mentioned in the first part of my letter is a major step forward for the accelerated development of your Company's acreage and should bring us more quickly to the stage where we receive greatly increased revenue.

We will continue to keep our shareholders informed of progress in the various areas of the Company's business.

Respectfully submitted on behalf of the Board of Directors.

March 18, 1975

President

STATEMENT OF EARNINGS AND DEFICIT

For the Six Months Ended January 31, 1975

(Unaudited)

	1975	1974
REVENUE		
Oil and gas sales	$204,444	$ 58,270
Interest and Other	23,468	76,257
	$227,912	$134,527
EXPENSES		
Production	$ 59,398	$ 25,208
Carrying charges on non-producing properties	53,028	16,066
Exploration	82,786	14,341
Interest on long-term debt	225,065	121,212
General and administrative	53,818	69,509
Depletion and depreciation	21,600	9,122
	$495,695	$255,458
LOSS BEFORE EXTRAORDINARY ITEM	$267,783	$120,931
GAIN ON SALE OF EQUIPMENT	$ 88,367	—
LOSS	$179,416	$120,931
PER SHARE:		
Loss before extraordinary item	$ 0.06	$ 0.03
Loss after extraordinary item	$ 0.04	$ 0.03